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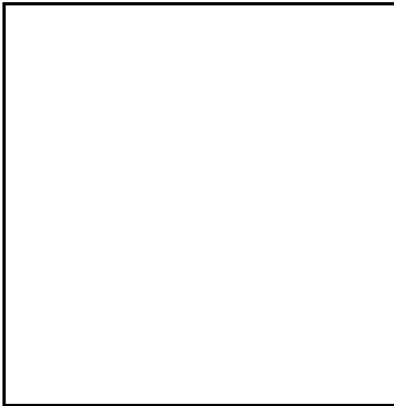
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1. SELWYN LLOYD OUTLINES BRITISH POLICY TOWARD MUSCAT REBELLION

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British Foreign Secretary Selwyn Lloyd minimized the scale of Britain's military action in Oman to Ambassador Whitney on 23 July and indicated his government still hopes to arrange talks between Saudi-Arabia and Muscat on border problems. Lloyd suggested that King Saud be informed that London does not plan to magnify this affair, whatever the provocation, but concluded, "If we don't beat this down, we will have trouble with other areas around the coast of Arabia."

Lloyd said it might be necessary "to do a bit of bombing, perhaps a fort or two," but that because of the heat, no British troops are being moved into Muscat at this time. A War Office source said on 22 July, however, that a rifle company and a support company armed with mortars and heavy machine guns are being airlifted to neighboring Sharja. Although the rifle company will probably be moved to Buraimi, the War Office plans no further troop movements now. Lloyd stated that the local Trucial Oman Scouts, numbering about 800 plus 21 British officers will receive additional arms and may be used to seal off the rebels.

Although most concern has centered on possible repercussions in the oil states of the Persian Gulf, the British also consider that unrest may spread to the frontier between the Eastern Aden Protectorate and Muscat.

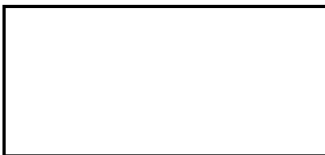
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3. SHAH APPARENTLY OBLIVIOUS TO THREATS TO IRANIAN STABILITY

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The Shah seems completely unaware of growing popular dissatisfaction and frustration which might threaten the stability of his regime and indicates every intention of maintaining personal control of the government, according to Ambassador Chapin, who had an audience with the Shah on 23 July. According to one Iranian official, the Shah returned from Europe "confident to the point of cockiness" and has made it clear to the cabinet and other officials that he intends to rule Iran.

Comment

The attitude of the Shah since his return from Europe will only aggravate the growing feeling among middle-class Iranians that Iran would be better off under a different form of government. If he persists, resentment of his personal rule could culminate in an ultimatum from political and military leaders demanding that he withdraw from government affairs or relinquish the throne.

4. ISRAEL-JORDAN BORDER CLASH FEARED

Foreign Minister Rifai of Jordan and United Nations observers fear a border incident may result from tree-planting activity by Israel in the neutral zone of Jerusalem. Rifai, in an interview with the American ambassador in Amman, charged the Israelis are trying to establish a de facto demarcation line and asserted that the Israeli labor force is supported by three companies of troops. Israel claims that a de facto partition line has existed for years and that Jordan has made no complaints over previous non-military activity.

An Israeli broadcast from Jerusalem that Jordanian "infiltrators" fired on a group of Israeli farmers and kidnaped one of them on 23 July adds to the tension along the Israeli-Jordanian border, which had been relatively quiet in recent months.

5. REPORTED SOVIET INTEREST IN ZHUKOV VISIT
TO UNITED STATES

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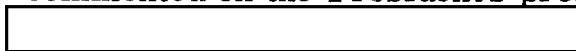
The Moscow correspondent of the Italian Communist paper L'Unita reported on 23 July that "circles worthy of trust close to the Soviet government" considered President

Eisenhower's remarks on 17 July about a visit by Marshal Zhukov to the United States a "logical and sensible idea and hence worthy of being received and examined with maximum attention." He claimed that "other groups" in Washington acted to block the proposal and as a result "the American government backed out," although the original idea was a good one.

Comment

L'Unita's correspondent, who recently gave a plausible "inside" report on the presidium shake-up, probably is speaking authoritatively about Soviet views. A Soviet journalist, talking with an American colleague last month, suggested a resumption of private correspondence between Zhukov and President Eisenhower. The Soviet press and radio have reported but not commented on the President's press conference remarks.

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6. PERVUKHIN NAMED CHAIRMAN OF SOVIET STATE
COMMITTEE ON FOREIGN ECONOMIC RELATIONS

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Mikhail G. Pervukhin has been relieved as head of the Ministry of Medium Machine Building, the chief nuclear energy organization in the USSR, and appointed head of the newly organized State Committee for

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Foreign Economic Relations, according to a TASS announcement. His successor as minister of medium machine building is Yefim P. Slavsky, former chief of the atomic energy board under the USSR Council of Ministers.

Comment

Pervukhin was relieved as head of the State Committee for Current Planning and appointed minister of medium machine building on 30 April 1957; he was demoted from full to candidate member of the party presidium in the June purge.

The Chief Directorate for Economic Relations (GUES), according to a report of 12 July, was to be raised to the status of a state committee under the Council of Ministers. The functions of GUES, especially with respect to directing the Soviet program of economic aid to underdeveloped areas, have been steadily expanding since it was formed in mid-1955. Since the new committee will presumably supervise economic relations with all foreign countries, Pervukhin's new appointment puts him in a position to exert considerable influence on a broad area of Soviet foreign affairs.

Slavsky, who has been associated with the Soviet atomic energy program for the past ten years, was appointed head of the Chief Directorate for Utilization of Atomic Energy when that body was formed in April 1956 and is a logical candidate to head the Medium Machine Building Ministry.

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**7. SOUTH CHINA CROP FAILURE CAUSING REFUGEE
PRESSURE ON HONG KONG**

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[REDACTED]

[REDACTED] A rice crop failure in South China has greatly increased the flow of refugees into Hong Kong, [REDACTED]

[REDACTED] Pressure on the colony's borders is said to be greater than at any time since the bombing of Canton in 1938. [REDACTED]

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Comment

Floods in late May and a severe typhoon in mid-July caused extensive damage in Kwangtung Province adjoining Hong Kong.

Widespread discontent in Kwangtung is reflected in official admissions that since last winter more than 100,000 peasant households have withdrawn from cooperatives. Unemployment, labor strikes, and food shortages in Kwangtung have also been officially acknowledged this year.

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8. BULGANIN LETTER TO MACMILLAN

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Soviet Premier Bulganin's letter of 20 July in answer to British Prime Minister Macmillan's letter of 16 June reveals no softening of Soviet policy on the outstanding East-West issues and indicates that the recent shake-up in the Soviet leadership has resulted in no change in Moscow's position on disarmament.

The 24 July Moscow broadcast summary of the letter focuses primarily on the disarmament negotiations, with special emphasis on the absolute necessity of an agreement to suspend nuclear weapons tests without linking this to other disarmament measures. The letter suggests, like Zorin's 8 July statement to the disarmament subcommittee, that Moscow is unsympathetic to any Western proposals which involve more or less than the Soviet test suspension proposal of 14 June. The letter makes no new disarmament proposals and does not suggest a recess in the talks. It sharply questions Western, particularly British, sincerity in the negotiations.

In addition to repeating past Soviet proposals for European security, Bulganin suggests a pledge by the United States and the European countries not to give any economic or military aid to an aggressor in Europe, regardless of treaty obligations. He warns again of the dangers of introducing atomic weapons into Europe and proposes again a British-Soviet-American agreement to keep them out of Germany. He repeats the standard formula that German unification is "the concern of the two existing German states and it is they who should negotiate between themselves about it."

Bulganin offers no detailed proposals for the Middle East, but simply urges a great-power pledge not to use force to settle disputes in the area. In the field of Anglo-Soviet

relations, he calls for an end to restrictions on trade and for talks on cultural exchanges, adding that the question of BBC broadcasts to the USSR could be discussed if their purpose is to improve understanding between the two countries.

The Soviet Union has been trying in bilateral approaches at the London disarmament talks to cause Western disunity. This letter may well be followed by separate ones to France and the United States. Although urging "personal contacts between the statesmen of our two countries," Bulganin gives no evidence that the USSR is offering to settle significant issues in bilateral or multilateral talks.

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